

# **4 ways to increase growth and improve business performance in the era of organisational complexity (1)**

## **1. Introduction**

There are multiple causes that explain why companies do not meet their goals: Loss of a technological wave, lack of anticipation to changes in consumer needs, slow response to competitive moves, etc. These factors are external and they normally translate into a gradual erosion of the competitive position in favour of other competitors that are gaining ground

On other occasions, the cause of the competitive decline is within the Organization itself. What is surprising about these cases, is that being born internally, many companies fail to successfully react to this problem, while others, in their effort to do so, end up making things worse.

## **2 How does the “internal” problem come up?**

The markets are getting richer in possibilities and opportunities, and at the same time, they are also becoming more complex: new market segments develop, significant threats from low-cost competitors arise, new technologies come up enabling new products, services or channels, and so on.

The sophistication of marketing and sales techniques is also growing. In fact, companies have more powerful tools to respond to this rich market context: deployment of digital channels, "big data and small data", CRMs, mobilization of applications, omnichannel management, etc. In this new context, innovation departments are gaining more power and are being more successful at fighting for a larger piece of the investment budget, slots in the IT roadmap, and resources for the launch of commercial pilots.

This context of possibilities and complexity requires to be managed. But the response that many organizations are providing is often based on wrong approaches, leading to undesired results.

The problem usually begins with the creation of new responsibilities in the Organization to ensure management focus on these new issues and opportunities. In some cases these new responsibilities result in a fragmentation of functions that should in fact be integrated in order to be efficiently managed. In other cases, there is no fragmentation of functions, but the new responsibilities that are created overlap and interfere with key management functions that are at the core of the business. For example, if a product line is not reporting a satisfactory customer experience a Customer Experience Department is created in order manage customer satisfaction across the organisation. Or if the digital channel or the self-care portal is not working according to expectations, a Digital Transformation function is created reporting to the CEO empowered to lead this effort with a company wide perspective. And so on.

In order to manage the best way possible these new roles and responsibilities and their integration with existing business functions, new coordinating roles and transformation programmes are set up. There are also new KPIs that need to be defined and monitored, because it is necessary to measure to what extent these new roles and programmes are solving the problems- or capturing the opportunities - for which they were created in the first place. The engagement of the CEO - and his staff- is also required in order to ensure that the organization is aligned with the missions of these new roles, and that the KPIs are properly tracked and updated. In the case of multinational companies, there are also Group initiatives and additional KPIs that need to be reported, demanding valuable time and resources from key business leaders.

### **3. What are the consequences of this approach?**

More complexity: The organizational structure and associated KPIs described above is at the origin of a complexity that spreads throughout the entire Organization, from the marketing and sales functions, to Operations, IT, or Business Controlling. This complexity in turn results in higher costs (hidden and visible) and barriers to productivity growth. In summary, if in our attempt to manage complexity, we create more internal functions, these in turn generate more complexity. And complexity is the enemy of fast Time to Market and profitability.

Loss of attention to the core business: The organization tries to address too many issues at the same time, and huge efforts are dedicated to the internal coordination between the different roles that appear. The KPIs that are tracked and reported significantly increase. Sometimes a single KPI can be reported in up to 5 different ways: the objective value, the “ambition”, the real value, the value versus the competition, and its evolution over time. Little by little, basic elements of the business suffer loss of management focus. This loss of focus typically takes place first over those topics that are more qualitative in nature and therefore difficult to measure. For example, between a good sales script and mediocre one there can be a 25% difference in commercial activity. This difference is enough to turn an upselling campaign profitable, and therefore scalable, or unprofitable, and therefore, potentially discontinued.

The key teams, those that impact the core business, end up losing sense of responsibility and accountability. The new roles that appear discourage middle managers, which in many cases see compromised their decision making power. At the same time, the “front line” of the organization, the production, sales and customer care teams are unable to successfully manage all of the mandates from ] all the different roles of the organization. Sales suffer and customer satisfaction deteriorates.

In brief, the consequences are important. Sometimes the inertia of the business hides the performance deterioration in the short term, but sooner or later customer growth stalls, commercial costs increase faster than revenues, customer satisfaction worsens and the overall competitive position deteriorates.

#### **4 Where to look to improve current business performance?**

If you recognize any of the problems just discussed in your organization, please resist the temptation to create an "Efficiency Improvement Department ". To look for improvement opportunities, we suggest instead you ask yourself four key questions that we address in the next upcoming article : *4 ways to increase growth and improve business performance in the era of organisational complexity (2)*